



Encouraging Small Business Success
in New York City and Northern New Jersey:

What Firms Value Most

Findings of a study sponsored by the Citizens Budget Commission
and the Federal Reserve Bank of New York

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Introduction

Small businesses are a vital component of the regional economy. In New York City, more than 200,000 firms qualify as small businesses, and together they account for fully two-thirds of the city's private sector jobs. Although small businesses by definition employ fewer than 500 employees, 96 percent of New York's small firms have fewer than 50 employees.* Northern New Jersey has roughly the same number of small firms and a similar distribution of employment.

Because of their importance in creating jobs, small businesses merit close attention in the formulation of economic development policies. To identify the

needs of small businesses, the Federal Reserve Bank of New York and the Citizens Budget Commission recently surveyed small business owners in New York City and northern New Jersey. The CEOs or presidents of these firms were queried about four issues:

- What factors do you consider most important to the success of your business?
- How do you rate your satisfaction with New York City or northern New Jersey with respect to those factors?
- What cities or regions would you consider for relocation, and what cost differential would you require to relocate?
- What types of financing do you receive, and whom do you consult for financial advice?

The results of our survey, presented below in detail, point to two major findings. First, New York City and northern New Jersey firms agree broadly on the three factors most important to the success of their





businesses: 1) the overall cost of doing business, 2) proximity to markets and clients, and 3) access to a skilled labor force. Second, most of the small business leaders are relatively satisfied with the current location of their businesses with respect to two of the three success factors; however, they are dissatisfied with the overall cost of doing business at their current location.

The survey also reveals that about one in seven business leaders would move for a cost savings of less than 10 percent, and about four in ten business leaders would relocate for a cost savings of greater than 20 percent. Finally, the share of firms that have obtained bank credit is notably larger in northern New Jersey than in New York City.

What factors do you consider most important to the success of your business?

In New York City, the heads of small businesses rank the overall cost of conducting business, proximity to

TABLE 1

Factors in Business Success

4=Very Important, 3=Somewhat Important, 2=Not Very Important, 1=Not Important At All

| | New York City Firms | Northern New Jersey Firms |
|---|------------------------|------------------------------|
| Overall cost of conducting business | 3.4 | 3.5 |
| Proximity to markets and clients | 3.4 | 3.2 |
| Access to skilled labor force | 3.3 | 3.3 |
| Proximity to the residences of key employees | 3.1 | 3.2 |
| Government taxes and regulations | 3.0 | 3.2 |
| Accessibility of land and air transportation | 3.0 | 3.0 |
| Proximity to business services and suppliers | 2.9 | 2.8 |
| Accessibility to innovation within field | 2.8 | 2.8 |
| Access to basics, such as affordable housing and quality public education | 2.7 | 2.9 |
| Proximity to other firms within industry | 2.7 | 2.2 |
| Access to cultural and entertainment amenities | 2.4 | 2.1 |

Notes: Differences between New York City and northern New Jersey firms on "Proximity to markets and clients" and "Government taxes and regulations" are significant at the 99 percent and 95 percent confidence levels, respectively. Differences between New York City and northern New Jersey firms on "Overall costs of conducting business" and "Access to skilled labor force" are not significant at the 95 percent confidence level.

TABLE 2

Factors in Business Success, by Industry: New York City Firms

4=Very Important, 3=Somewhat Important, 2=Not Very Important, 1=Not Important At All

| | Manufacturing | Wholesale Trade | Retail Trade | FIRE | Business Services | Professional Services | Transportation | All Respondents* |
|---|---------------|-----------------|--------------|------------|-------------------|-----------------------|----------------|------------------|
| Proximity to markets and clients | 3.3 | 3.5 | 3.7 | 3.4 | 3.4 | 3.3 | 3.3 | 3.4 |
| Overall cost of conducting business | 3.5 | 3.3 | 3.3 | 3.3 | 3.4 | 3.1 | 3.6 | 3.4 |
| Access to skilled labor force | 3.4 | 3.0 | 3.0 | 3.5 | 3.6 | 3.5 | 3.3 | 3.3 |
| Proximity to the residences of key employees | 3.3 | 3.0 | 3.1 | 3.1 | 3.1 | 3.0 | 3.1 | 3.1 |
| Government taxes and regulations | 3.1 | 2.9 | 3.1 | 3.1 | 3.0 | 2.6 | 2.9 | 3.0 |
| Accessibility of land and air transportation | 3.4 | 3.0 | 2.9 | 2.8 | 3.1 | 3.4 | 3.1 | 3.0 |
| Proximity to business services and suppliers | 3.0 | 2.7 | 3.2 | 2.7 | 2.9 | 2.8 | 3.0 | 2.9 |
| Accessibility to innovation within field | 2.8 | 2.6 | 2.6 | 3.0 | 2.7 | 2.9 | 2.7 | 2.8 |
| Proximity to other firms within industry | 2.7 | 2.9 | 2.9 | 2.5 | 2.6 | 2.2 | 2.5 | 2.7 |
| Access to basics, such as affordable housing and quality public education | 2.8 | 2.6 | 2.5 | 2.6 | 2.8 | 2.4 | 2.9 | 2.7 |
| Access to cultural and entertainment amenities | 2.4 | 2.2 | 2.4 | 2.5 | 2.7 | 2.5 | 2.5 | 2.4 |

Notes: Differences in importance between firms in different industries on "Access to a skilled labor force" are significant at the 99 percent confidence level. Differences in "Overall costs of conducting business," "Proximity to markets and clients," and "Government taxes and regulations" are not significant at the 95 percent confidence level.

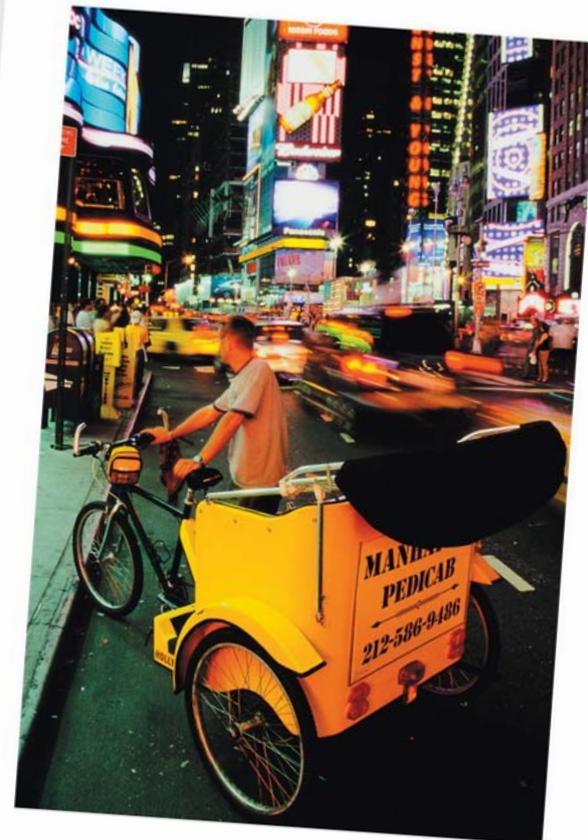
*Total includes 40 respondents not classified by industry.

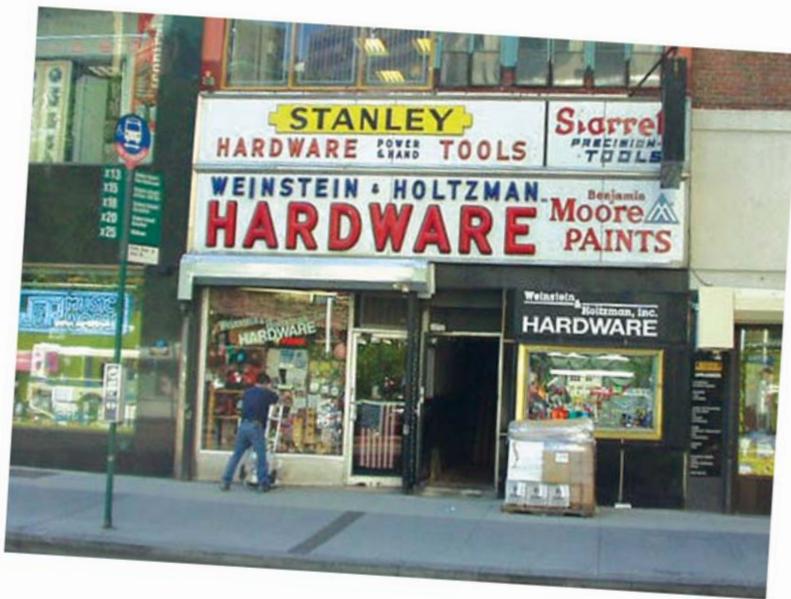
markets and clients, and access to a skilled labor force as the most important factors in their success (Table 1). These priorities are consistent across New York City firms in all major industry categories (Table 2).

In northern New Jersey, the heads of small businesses identify these same factors as priorities, but rank other factors high as well (Table 1). The overall cost of conducting business is clearly the single most important factor among northern New Jersey firms.

Proximity to markets and

clients and access to a skilled labor force are also highly rated. But in northern New Jersey, these factors are joined by proximity to the residences of key employees and by government taxes and regulations as high-priority considerations. The latter two factors are given a lower ranking among leaders of New York City firms.





How do you rate your satisfaction with New York City or northern New Jersey with respect to those factors?

The heads of both New York City and northern New Jersey small businesses are dissatisfied with the overall cost of conducting business in their region—a success factor they cited as a top priority (Table 3). These business heads are also dissatisfied with government taxes and regulations, a factor given more weight among northern New Jersey firms than among New York City firms.

In contrast, business heads in both New York City and northern New Jersey are satisfied with two of the three key factors for success—proximity to markets and clients and access to a

TABLE 3

Satisfaction with Factors in Business Success

4=Very Satisfactory, 3=Somewhat Satisfactory, 2=Not Very Satisfactory, 1=Not Satisfactory At All

| | New York City Firms | Northern New Jersey Firms |
|--|------------------------|------------------------------|
| Proximity to markets and clients | 3.6 | 3.6 |
| Access to skilled labor force | 3.4 | 3.4 |
| Proximity to the residences of key employees | 3.2 | 3.3 |
| Overall cost of conducting business | 2.5 | 2.7 |
| Government taxes and regulations | 2.5 | 2.4 |

Notes: Only respondents rating factors as “Very” or “Somewhat” Important were asked to rate their satisfaction. Differences in satisfaction between New York City and northern New Jersey firms on “Overall costs of conducting business” are significant at the 95 percent confidence level. Differences in satisfaction between New York City and northern New Jersey firms on “Access to skilled labor force,” “Proximity to markets,” and “Government taxes and regulations” are not significant at the 95 percent confidence level.

TABLE 4

Satisfaction with Factors in Business Success, by Industry: New York City Firms

4=Very Satisfactory, 3=Somewhat Satisfactory, 2=Not Very Satisfactory, 1=Not Satisfactory At All

| | Manufacturing | Wholesale Trade | Retail Trade | FIRE | Business Services | Professional Services | Transportation | All Respondents* |
|---|---------------|--------------------|-----------------|------------|----------------------|--------------------------|----------------|---------------------|
| Proximity to markets and clients | 3.7 | 3.5 | 3.6 | 3.6 | 3.6 | 3.8 | 3.7 | 3.6 |
| Access to skilled labor force | 3.3 | 3.1 | 3.1 | 3.5 | 3.6 | 3.7 | 3.5 | 3.4 |
| Proximity to the residences of key employees | 3.3 | 3.2 | 3.1 | 3.1 | 3.2 | 3.3 | 3.2 | 3.2 |
| Overall cost of conducting business | 2.5 | 2.3 | 2.8 | 2.6 | 2.6 | 2.9 | 2.4 | 2.5 |
| Government taxes and regulations | 2.4 | 2.3 | 3 | 2.5 | 2.6 | 2.6 | 2.3 | 2.5 |

Notes: Only respondents rating factors as “Very” or “Somewhat” Important were asked to rate their satisfaction. Differences in satisfaction between firms in different industries on “Access to a skilled labor force” are significant at the 99 percent confidence level. Differences in “Overall costs of doing business and proximity to markets and clients” are not significant at the 95 percent confidence level.

*Total includes 40 respondents not classified by industry.

skilled labor force. They are also satisfied with a fourth factor judged important among northern New Jersey firm owners—proximity to the residences of key employees.

In New York City, the pattern of satisfaction with two of the key success factors and dissatisfaction with the overall cost of doing business is evident among leaders of small businesses in all the major industry classifications (Table 4).

A more detailed exploration of New York City and northern New Jersey business heads' level of satisfaction with the quality of their labor force confirmed the previous finding that business heads are generally satisfied with the quality of their labor force (Table 5).

TABLE 5

Satisfaction with Labor Force

4=Strongly Agree, 3=Somewhat Agree 2=Somewhat Disagree, 1=Strongly Disagree

| | New York City Firms | Northern New Jersey Firms |
|--|---------------------|---------------------------|
| My employees have the skills they need to keep my company competitive | 3.4 | 3.4 |
| It is easy to find training facilities for my employees to upgrade their skills when necessary | 3.0 | 2.9 |
| I am able to fill entry-level jobs easily with qualified workers | 3.1 | 3.0 |
| I am able to fill mid-level jobs easily with qualified workers | 3.1 | 3.0 |
| I am able to fill upper-level jobs easily with qualified workers | 3.0 | 2.9 |

Notes: Differences in satisfaction between New York City and northern New Jersey firms on their ability to fill entry level jobs are significant at the 95 percent confidence level. Differences in all other ratings are not significant at the 95 percent confidence level.

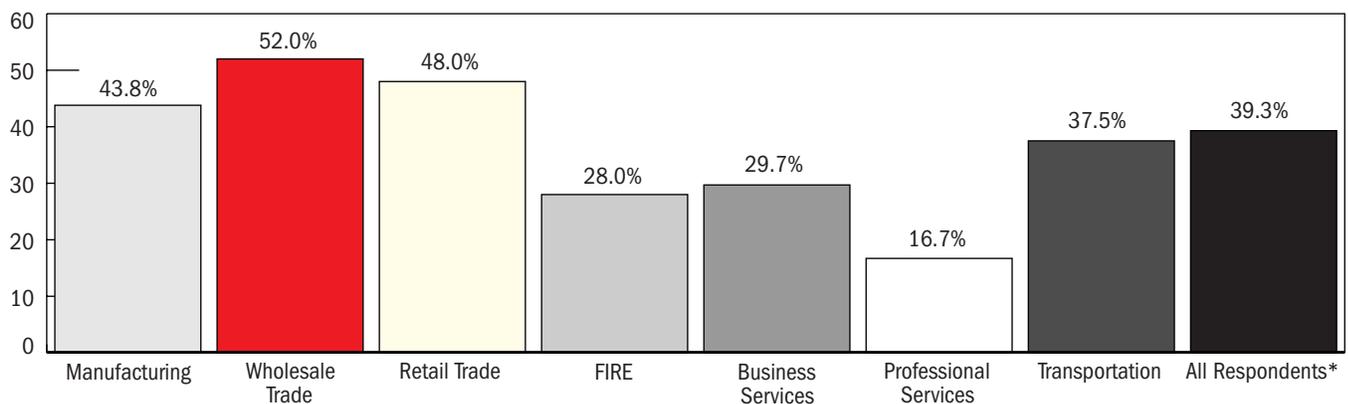
Most business heads agree that their workers have the skills needed to keep the company competitive. However, northern New Jersey business heads voiced concerns about the opportunities for upgrading workers' skills and the supply of workers for upper-level jobs.

Another factor examined in the survey is transportation congestion or delays

(Chart 1). Among New York City business heads, nearly four in ten report that their business operations are routinely hampered by transportation congestion or delays. This issue is much more troublesome for goods-handling firms in industries such as manufacturing and wholesale and retail trade than for firms in the service industries.

CHART 1

Business Operations Routinely Hampered by Transportation Congestion or Delays, by Industry: New York City Firms



Note: Differences among industries reporting problems with transportation delays are significant at the 99 percent confidence level.

*Total includes 40 respondents not classified by industry.



What cities or regions would you consider for relocation, and what cost differential would you require to relocate?

A large majority of the firms in New York City (85 percent) and northern New Jersey (72 percent) were founded at their current location. Further, most firms indicate that

they would prefer to stay at their current location. If they wanted to expand their businesses, 67 percent of New York City and 59 percent of northern New Jersey business heads would expand at their current location (Table 6).

However, more than one-third of business heads in northern New Jersey and nearly one-quarter of

TABLE 6
Willingness of Firms to Expand at Current Location
Percent

| New York City Firms | |
|---------------------------|-------|
| Yes | 66.7 |
| No | 28.7 |
| Don't know/refused | 4.6 |
| | 100.0 |
| Northern New Jersey Firms | |
| Yes | 59.2 |
| No | 38.2 |
| Don't know/refused | 2.6 |
| | 100.0 |

TABLE 7
Willingness of Firms to Relocate outside Metro Area

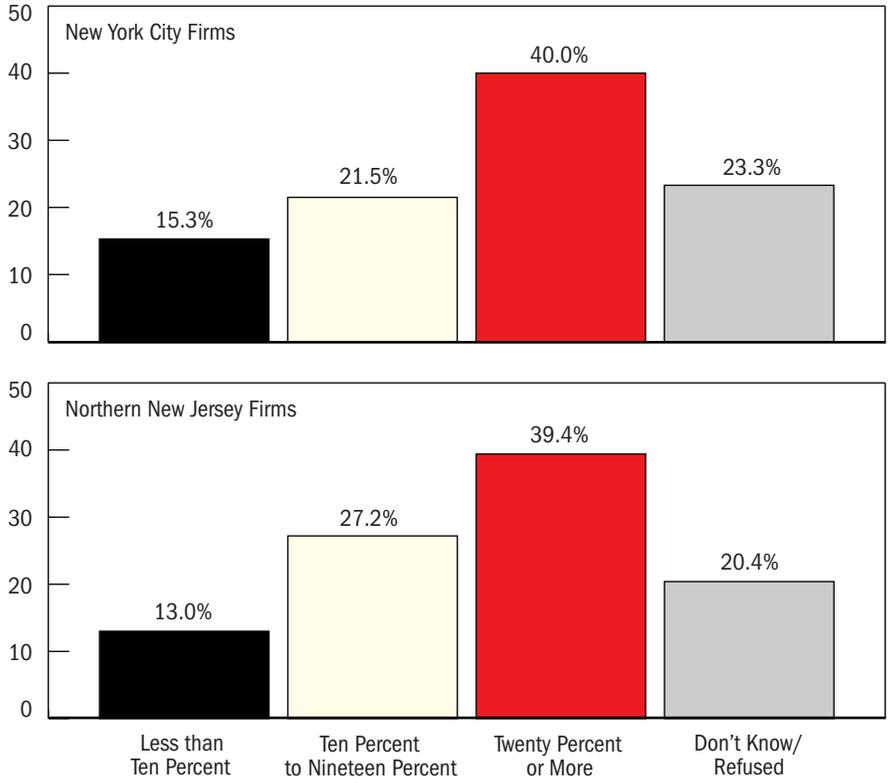
| | New York City Firms | Northern New Jersey Firms |
|--|---------------------|---------------------------|
| Number of firms | 400 | 401 |
| Percentage of firms that would not consider relocation | 76.3 | 63.8 |
| None | 58.3 | 42.9 |
| Don't know/refused | 18.0 | 20.9 |
| Percentage of firms that would consider relocation | 23.8 | 36.2 |
| Total | 100.0 | 100.0 |
| Number of firms considering relocation | 95 | 145 |
| Percentage of firms willing to relocate to: | | |
| Miami | 29.5 | 26.9 |
| Los Angeles | 18.9 | 5.5 |
| Chicago | 13.7 | 2.8 |
| Boston | 9.5 | 0.0 |
| San Francisco Bay area | 9.5 | 2.8 |
| Pennsylvania | 9.5 | 26.9 |
| Washington, D.C. | 8.4 | 4.1 |
| North/South Carolina | 7.4 | 14.5 |
| Atlanta | 6.3 | 6.9 |
| Texas | 5.3 | 5.5 |
| Virginia | 5.3 | 6.2 |
| Miscellaneous California | 1.1 | 4.8 |
| Other | 21.1 | 21.4 |

Notes: Percentages for locations considered may not sum to 100 percent because firms were allowed to consider more than one location. Differences in locations possibly considered by New York City and northern New Jersey firms are significant at the 99 percent confidence level.

business heads in New York City indicate a willingness to relocate outside the New York metropolitan area if they were seeking to expand (Table 7). Among New York City business heads willing to consider another location for expansion, the most frequently named cities are Miami and Los Angeles. Among northern New Jersey business heads considering such a move, the most popular potential destinations are Miami and Pennsylvania.

What cost differential would small business owners require to relocate? In both New York City and northern New Jersey, about four in ten business heads indicate that they would require a cost savings of 20 percent or more in order to relocate (Chart 2). About one in seven business heads indicate that they would move for a savings of less than 10 percent.

CHART 2
Cost Savings Necessary to Relocate



Note: Differences between New York City and northern New Jersey firms not significant at the 95 percent confidence level.



TABLE 8

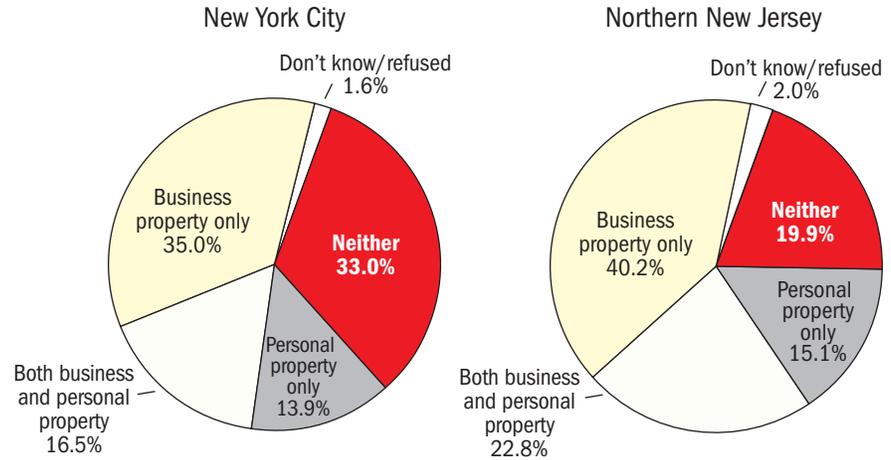
Types of Financing Received
Percent

| | New York City Firms | Northern New Jersey Firms |
|--------------------------|---------------------|---------------------------|
| Bank line of credit | 71.6 | 81.5 |
| Angel financing | 18.7 | 19.5 |
| SBA or gov't-backed loan | 9.5 | 9.7 |
| Venture capital fund | 9.0 | 5.7 |

Notes: Differences in obtaining bank financing between New York and northern New Jersey firms are significant at the 99 percent confidence level. Differences in obtaining angel, venture capital, or SBA financing between New York City and northern New Jersey firms are not significant at the 95 percent confidence level. Figures may not sum to 100 because respondents could have more than one source of financing.

CHART 3

Collateral Required in order to Obtain Financing



Notes: Differences in collateral required by New York City and northern New Jersey firms are significant at the 99 percent confidence level. Only firms that reported obtaining financing were asked about collateral.

What types of financing do you receive, and whom do you consult for financial advice?

Access to capital can be a major problem for some small businesses, but the impact of this problem appears limited in the New York region. A large majority of the small businesses indicate that they have obtained a bank line of credit. The share of firms that have obtained bank credit is notably larger in northern New Jersey (82 percent) than in New York City (72 percent) (Table 8). However, in each area, less than 3 percent of

firm heads report that they have applied for bank credit and been turned down. Hence, the reported difference in obtaining a bank line of credit may

reflect self-selection among the applicants.

As for other types of financing, in New York City and northern New Jersey, about one in five firms have received “angel” financing

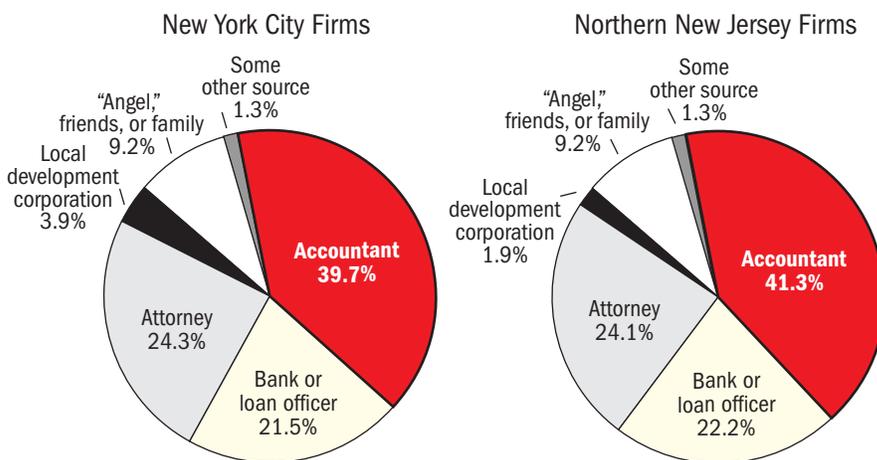


from friends or relatives, about one in ten firms have received a government-backed loan, and less than one in ten firms have received venture capital financing.

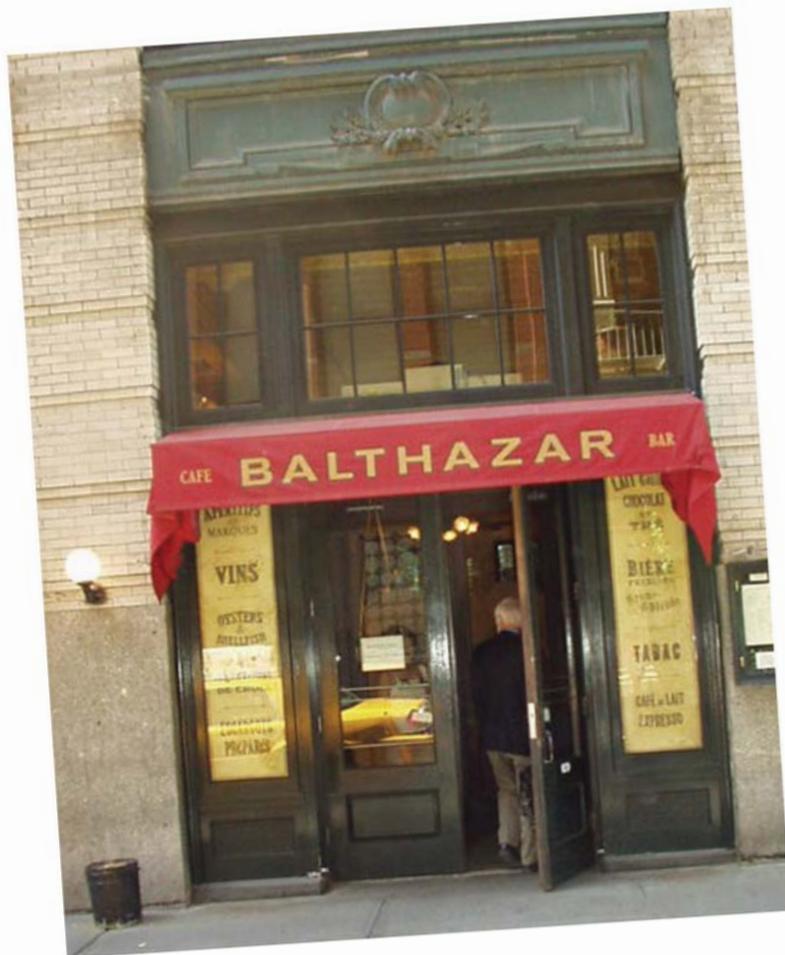
In order to obtain financing, most of the small business leaders that have obtained credit had to pledge some collateral (Chart 3). The proportion of firms that were required to pledge collateral to obtain credit was significantly higher in northern New Jersey (80 percent) than in New York City (67 percent). The proportion required to pledge personal property as collateral was also higher in northern New Jersey than in New York City.

Most small business owners throughout the New York metropolitan region consult their accountant for financial advice (Chart 4). Other small business owners indicate that they consult either bank officers or their attorney for financial advice.

CHART 4
Source of Financial Advice



Notes: Differences between New York City and northern New Jersey firms are not significant at the 95 percent confidence level.





Implications of the Findings

Two findings should be of interest to those responsible for economic development policy in the region. First, while it is good news that small business leaders are relatively satisfied with the area with respect to two of the three success factors considered most important, it should be a cause for concern that they are

dissatisfied with the cost of doing business in the region. Clearly not all costs can be controlled through state or local policy initiatives, but those that can be controlled through government actions should be given renewed attention. Public policy regarding taxes, fees, zoning rules, and utility regulations can adversely affect business costs.

Second, the fact that such a large proportion of small businesses were founded in their current location is a reminder of the importance of local entrepreneurship. A favorable business culture and public policies that encourage enterprising individuals to start businesses are critical to sustaining employment growth in the region.

TABLE 9**Employment Category Size of Surveyed Firms**
Percent Distribution

| | Fewer than 50 Employees | 50 - 99 Employees | 100 - 249 Employees | 250 - 499 Employees | Total |
|---------------------|----------------------------|-------------------|---------------------|---------------------|-------|
| New York City | 52.0 | 21.0 | 20.3 | 7.0 | 100.0 |
| Northern New Jersey | 50.6 | 20.9 | 21.9 | 6.5 | 100.0 |

Note: Differences in employment category size between New York City and northern New Jersey firms are not statistically significant at the 95 percent confidence level.

TABLE 10**Industry Classification of Surveyed Firms**
Percent Distribution

| | New York City Firms | Northern New Jersey Firms |
|-----------------------|------------------------|---------------------------------|
| Manufacturing | 16.0 | 25.4 |
| Wholesale trade | 24.9 | 20.2 |
| Retail trade | 6.2 | 10.2 |
| FIRE | 20.2 | 10.0 |
| Business services | 9.2 | 9.2 |
| Professional services | 7.2 | 6.0 |
| Transportation | 6.0 | 11.5 |
| Other | 9.7 | 7.7 |
| Total | 100.0 | 100.0 |

Notes: Differences in industry between New York City and northern New Jersey firms are statistically significant at the 95 percent confidence level.

Characteristics of the Sample

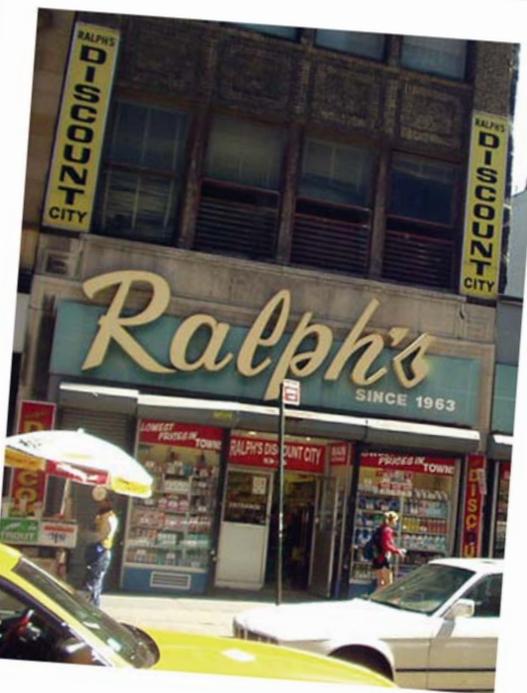
A more detailed description of the firms in the survey is provided in Tables 9, 10, and 11. At least half of the firms in each area have fewer than 50 workers, at least 70 percent have fewer than 100 workers, and at least 90 percent have fewer than 250 workers. The share of firms in the sample with fewer than 50 workers is smaller than

TABLE 11**2003 Annual Sales Revenue of Surveyed Firms**
Percent Distribution

| | New York City Firms | Northern New Jersey Firms |
|-------------------------------------|------------------------|------------------------------|
| \$5 million to under \$50 million | 81.8 | 88.5 |
| \$50 million to under \$100 million | 10.0 | 7.7 |
| \$100 million and over | 8.0 | 4.0 |
| Total | 100.0 | 100.0 |

Notes: Figures may not sum to 100 due to rounding and weights. Differences in annual sales revenue between New York City and northern New Jersey firms are statistically significant at the 95 percent confidence level.





that among all firms as reported by the New York State Department of Labor. This difference can be attributed to the fact that the survey sample is limited to firms with at least \$5 million in annual revenue.

Firms in New York City are more likely to be in the finance and insurance sectors, are more dependent on those sectors for their revenues, and have higher revenues. That is, even if firms are not directly involved in the finance and insurance industries, a disproportionate share of firms sell their products and business and professional services to the finance and insurance

sectors. Among northern New Jersey firms, the leading source of revenue is manufacturing. Thirty-nine percent of northern New Jersey firms name manufacturing as a major source of revenue, whereas only 22 percent of New York City firms report the same (Table 12).

Notes

* New York State Department of Labor, Insured Employment, second-quarter 2004.

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Please note that the accompanying photographs are merely illustrative. The firms and companies appearing in the photographs did not participate in the survey and do not endorse its results.

TABLE 12
Industry Representing Major Source of Revenue for Surveyed Firms
Percent

| | New York City | Northern New Jersey |
|---------------------------------|---------------|---------------------|
| Financial services | 30.3 | 19.0 |
| Wholesale/Retail | 24.3 | 17.7 |
| Manufacturing | 22.0 | 39.4 |
| Health | 13.3 | 24.4 |
| Culture and media | 9.3 | 10.0 |
| Technology or science-oriented | 9.0 | 19.0 |
| Tourism | 8.0 | 8.2 |
| Education | 6.5 | 13.5 |
| Construction/ Building trade | 5.0 | 6.5 |
| Government/ Law enforcement | 2.3 | 4.0 |
| Food industry | 2.3 | 3.2 |
| Transportation/ Distribution | 2.0 | 5.5 |
| Miscellaneous services | 2.0 | 0.0 |
| Legal | 1.8 | 0.5 |
| Automobile industry | 1.8 | 1.0 |
| Other | 5.0 | 5.5 |

Notes: Percentages for revenue sources may not sum to 100 percent because respondents could identify more than one industry as a major source of revenue. Twelve New York City firms and nine northern New Jersey firms that answered "Don't Know" are not included. Differences in revenue sources between New York City and northern New Jersey firms are statistically significant at the 99 percent confidence level.

Methodology

In December 2004, ORC MACRO conducted a statistically representative survey with a sample pool limited to firms in New York City and northern New Jersey that have fewer than 500 employees and annual sales greater than \$5 million. In New York City, 6,785 firms fit these criteria, whereas in northern New Jersey, 6,396 firms (in the Bergen-Passaic, Jersey City, Newark, Monmouth-Ocean, and Middlesex-Somerset-Hunterdon metropolitan areas) fit these criteria. In all, 801 interviews were conducted—400 in New York City and 401 in northern New Jersey. Eighty percent of the interviews were conducted with the CEO, CFO, president, or owner. Rae D. Rosen, Assistant Vice President, Federal Reserve Bank of New York, and Marcia Van Wagner, Deputy Director of Research, Citizens Budget Commission, developed the survey and directed the study.